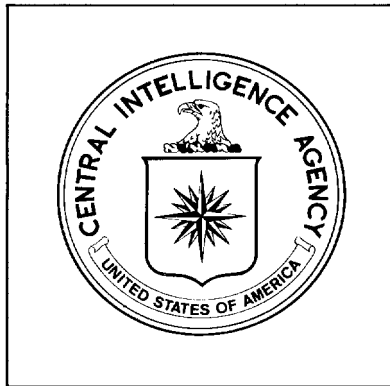


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STAFF NOTES:

Latin American Trends

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S E C R E T

LATIN AMERICAN TRENDS

This publication is prepared for regional specialists in the Washington community by the Western Hemisphere Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Mexico: Terrorist Violence

Mexico is going through another periodic spurt of urban terrorist violence focused on the capital. On August 22 two naval guards and a policeman were shot to death during a flag-lowering ceremony. Earlier last week gunman burst into a cafe in Mexico City and killed three uniformed policemen as well as three civilians at another table who were apparently mistaken for plain clothes agents.

So far this year 21 policemen have been killed. Police have blamed most of the slayings on the 23rd of September Communist League, an urban extremist group that in the past has been responsible for numerous bank robberies and kidnappings. The terrorists are zeroing in on policemen, probably to get their weapons, to revenge deaths of former members at the hands of police, and to try to force repressive action by the authorities.

Following the shootings on August 22 police announced the arrest of 27 members of the 23rd of September group and claimed that the group has been virtually immobilized. Past round-ups of large numbers of its members have failed to halt its activities, however, and there is little reason to believe that this will not be the case again.

Secretary of Government Moya Palencia, while concerned at the outbreak of violence against police, has noted that these terrorist acts are minor when compared with the much broader security threats that existed three years ago. (CONFIDENTIAL)

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Colombia/Ecuador: Sea Declaration At Quito

Colombia has established a 200-mile resource preservation zone off its Pacific coast, lending token support to Ecuador's claim to a 200-mile territorial sea. The presidents of the two countries, meeting in Quito over the weekend, failed to take a joint stand on territoriality, however, largely because Colombia has no wish to complicate the current series of meetings on law of the sea.

Prevailing ocean currents take Pacific tuna and shrimp more than 200 miles off Colombia's west coast, and the proximity of Caribbean islands administered by other countries makes any 200-mile claim off Colombia's north coast a virtual impossibility. As a result, Colombia wishes to commit itself as little as possible in befriending Ecuador, its neighbor and Andean Pact partner.

On the other hand, Ecuador views taking a positive stand on the 200-mile limit as essential to its economic well-being. To the annual tuna run, which is profitable as both a resource and a generator of fines against foreign fishing boats, the Ecuadoreans have now added the possibility of oil reserves off the coast of Manabi Province.

This basic divergence of interests makes the likelihood of a joint Colombian-Ecuadorean position on the law of the sea exceedingly small. The Colombian Government can be expected to extend its present 12-mile limit only in the context of a multinational treaty.
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Brazil: New Government Party President

President Geisel's selection of a politician with no national stature to head the governing National Renewal Alliance party has disappointed party members. Geisel's choice is Francelino Pereira, a 54-year-old Federal Deputy from the state of Minas Gerais. He replaces Senator Petronio Portella, whom some party members blamed, at least in part, for last year's electoral setback.

Party politicians were upset by Geisel's choice because the President imposed his decision without consulting them. They see this undemocratic procedure as inappropriate for a President who has raised their hopes for a liberalization of the political climate. Moreover, the party faithful were disappointed that Pereira got the nod when a younger, more energetic man was sorely needed to galvanize the party and enhance its electoral appeal.

Pereira is not without merit, however. In the 1974 congressional elections he polled the largest number of votes of any candidate running for the Chamber of Deputies in Minas Gerais. Moreover, he is known for his affability and talent for keeping lines open to various party factions. Indeed, the latter quality may have been decisive in gaining him the presidency of the strife-torn party. While his voting record indicates no ideological leanings, he was considered a center-left social democrat earlier in his career.

As party president Pereira will wield little real power; his main role will be to convey Geisel's wishes to the party. Nevertheless, in his present position he will become nationally known, and his public statements will often be taken as authoritative expressions of presidential sentiment. For those who believe that the party president should be a symbol of the government's commitment to liberalization or a miracle worker who can somehow make the party strong, Pereira is likely to be a disappointment.
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Brazil: Long-Term Cereal Prospects Disappointing

Contrary to the hopes of some observers, Brazil is unlikely to contribute significantly to world cereal supplies in the next decade. Provisional consumption projections for 1985 indicate that only a dramatic increase in production growth would allow Brazil to do much more than meet its domestic demand. Such an increase is not likely because despite the Brazilian Government's increased emphasis on overall agricultural production, cereal production is not an area of high priority.

Brazil is currently a slight net importer of cereals; it is self-sufficient in production of rice, sorghum, barley, and oats, a small net exporter of corn, and a small net importer of wheat. Cereal consumption, including both food and feed, will total about 26 million tons this year, compared with production of 25 million tons. The difference will have to be met through imports.

Prompted by rapid growth in both population and income, cereal consumption is expected to soar to 40-42 million tons by 1985, an average annual increase of about 5 percent. Only about half of this increase will be consumed as food by the Brazilian populace, whose diet will include relatively larger amounts of meat and fruits and vegetables as incomes rise. The other half will be absorbed as feed for the expanding livestock products industry, whose growth has been given high priority by Brazilian planners.

At best, production during the next decade can be expected to rise at the 5-percent annual rate of the past five years, or only enough to match consumption. Brazil's soil and climate are not suited to raising wheat, and yields have increased little over the last 25 years. Further expansion of the area under

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cultivation is limited by the risks of weather and disease damage and the high cost of promoting wheat production at the expense of other relatively more profitable crops.

Corn production has been increased largely by adding to the area under cultivation with little gain in yields. Production increases should continue to be absorbed by the rapidly rising demand for feedgrains. Rice production is highly vulnerable to weather conditions, and yields have not increased. Expansion of the area under rice cultivation is limited by competition from the fast-growing soybean industry.
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ANNEX

Peru: How The Military Government Negotiates

Preliminary discussions between government bureaucrats and officers of the recently nationalized Marcona Mining Company afford a revealing glimpse of negotiating tactics employed by Peru's military regime. Operating under the aegis of a seemingly iron-clad "expropriation" decree, the government is showing a blend of reasonableness and demagoguery; of candor and evasiveness; and of subtlety and bluntness. In this as in other matters, the country's military leaders conduct essentially a three-front campaign:

--domestic orientation with its emphasis on "anti-imperialism" and revolutionary propriety.

--general foreign policy directives that stress Third World nationalism and anti-imperialism.

--bilateralism based on strong feelings of "independence" tempered with the grudging realization that Peru cannot go it alone in economic affairs.

This three-faceted negotiating platform often operates as a hindrance to orderly and rational resolution of bilateral problems.

The following assessment of the Marcona affair is offered to identify some of the factors that influence the current Peruvian leadership and that have characterized bilateral relations in the past. Although the drift of the process suggests a solution unfavorable to the US company, this analysis is not meant to predict the outcome of any further discussions.

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A Variety of Influences

The Marcona takeover had been under consideration by the government for many months, and even a week prior to the nationalization announcement on July 24, company officials were expressing optimism that an amicable solution was in the works. The only official word of imminent action came in a conversation between a government minister and the US Ambassador at a social function the previous day.

In this case as in other major foreign policy decisions, government leaders debated the pros and cons ad infinitum, but seemed unable to move definitively until they felt pressed either by external factors to reach a decision, or by other, often unrelated, events into making a show of revolutionary fervor. Subsequent reports that some high officials are having second thoughts about the expropriation suggest that primary importance was placed on the political rather than the economic consequences of the action.

The impetus to move against Marcona seems to have been President Velasco's determination to announce a major revolutionary initiative coincident with the Peruvian Independence Day celebrations on July 28. He presumably yielded to pressure from his more radical army associates for lack of any other truly new programs to announce. Many regime leaders apparently feel a great need for a periodic reaffirmation of their own revolutionary credentials by propounding extremist programs.

Other specific factors that apparently influenced the government to move were:

--A belief that Japan was exerting undue pressure in refusing to commit itself to contract with Hierroperu, the government bureaucracy that has inherited Marcona's assets, as it had with the US company.

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--A desire to join the newly formed Association of Iron Ore Exporting Countries, which it apparently could not do until the state took possession of the ore itself.

--A felt need to balance recent economic austerity measures with some more popular program.

--A need to reaffirm Peru's Third World credentials before the meeting of nonaligned foreign ministers that began in Lima August 25.

As a prelude to the expropriation, the government engaged in a campaign to discredit the US firm by placing anti-Marcona stories in the government-controlled press. In addition, regime officials influenced labor leaders to agitate against Marcona. Similar tactics have been employed in other instances when the government has felt ready to signal pending action against a foreign investor. For example, a protracted vindictive press campaign was carried out before the Cerro de Pasco Corporation was nationalized in 1974.

Cloak of Legitimacy

The specific terms of the transfer of Marcona's assets and the avenues of recourse open to the company--which were reiterated at the first negotiating session--suggest that the government has decided that the firm will be given little if any compensation. Government statements thus far indicate that hardliners in the regime continue to hold sway over President Velasco, who himself is predisposed to view any US company as, at best, a necessary evil. A similar scenario played itself out during the Braniff negotiations earlier this year. In that process, the hardliners carried the day until Lima was faced with the imminent suspension of virtually all civil air traffic between Peru and the US; a last-minute compromise was reached.

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If Velasco and certain other top generals felt free to do as they wished, foreign companies slated for takeover would be given their walking papers simply for an alleged breach of contract or because their continued operation had become incompatible with revolutionary goals. In practice, however, Peruvian leaders realize that their country still needs foreign investment and other economic support, and that more substantial justification for an expropriation is needed in order to protect the country's investment climate.

In Marcona's case, the government maintains that the company breached its contract and thereby triggered a provision allowing the state to take over the facilities with no obligation to pay for them. Such a clause apparently is not uncommon in international investment circles, but at least in the present instance, it has operated essentially to legitimize a political takeover. Marcona, of course, maintains it has not broken its contract.

In response, the Velasco regime emphasizes that Marcona has at its disposal the Peruvian judicial system to contest the terms of the expropriation and dispute the expected low valuation of the company's assets. The government noted that this is Marcona's only recourse, since the expropriation decree itself is within the bounds of legitimate legal action. In effect, these judicial trappings are just that, and the government's insistence that they be adhered to strictly affords the company little hope of recovering any substantial portion of its assets, given the military's strong influence over the courts.

President Velasco apparently is taking this letter-of-the-law tack to appease his more radical supporters and to avoid any appearance of buckling under US pressure. In addition, however, regime leaders may hope that by taking a recalcitrant stance at this time, they will

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be able later to obtain concessions on other bilateral issues by forcing the US government more directly into the fray. The Peruvians may have in mind eventually beginning a broader negotiating process--which would serve in part to disguise any compensation for Marcona --perhaps along the lines of the Greene negotiations in 1973-74.

If this is the case, the government probably would not begin overt maneuvering to this end until leaders are convinced that they, not Washington, are "calling the shots." At any rate, this probably would not occur before the talks with the company had actually or effectively broken down. In the embassy's view, the military government may find it demeaning for it to present proposals to a "mere" multinational corporation.

No Quick Solutions

The Peruvian military bureaucracy and the government's penchant for revolutionary rhetoric do not lend themselves to quick and decisive negotiations. Only when President Velasco determines that the regime has been forced to take a position or has backed itself into a corner will the government spokesman accurately and definitively make Lima's position known to the other side. On controversial issues such as a major expropriation, there is usually no total agreement among top military leaders; disagreements are likely to be even more pronounced nowadays since executive decision-making power is undergoing a gradual shift from Velasco to Prime Minister Morales Bermudez. Those favoring the more radical course will often make their case publicly to solidify their own position. When such a position is made public, it often becomes policy ipso facto.

It should not be assumed that Peru's final position will necessarily coincide with the country's best interests; nor will such a decision necessarily reflect previously stated policy. (SECRET/NO FOREIGN DISSEM/BACKGROUND USE ONLY/CONTROLLED DISSEM)

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